

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AGR-10 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 SAM-01 /114 W
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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5652

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

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PASS AGRICULTURE

E.O. 11652: L/A

TAGS: EAGR UI EC

SUBJECT: OCTOBER 14 GREEN POUND DEVALUATION - EFFECT ON
BRITISH FARM AND RETAIL FOOD PRICES

SUMMARY: THE 5.8 PERCENT DEVALUATION IN THE UK GREEN
POUND AGREED BY EC FARM MINISTERS' MEETING IN LUXEMBOURG
ON OCTOBER 14 IS PRIMARILY INTENDED TO GIVE A BOOST TO
BRITAIN'S AILING DAIRY INDUSTRY. THE EFFECT ON MILK
PRODUCER PRICES WILL COMMENCE OCTOBER 27; OTHER PRICE
INCREASES WILL COME INTO OPERATION ON VARIOUS
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COMMODITIES BETWEEN THEN AND JULY 1, 1976. MINISTER OF

AGRICULTURE PEART TOLD COMMONS ON OCTOBER 15 THAT DEVALUATION WILL BE WORTH AN ADDITIONAL 90 MILLION POUNDS TO BRITISH FARMERS IN A FULL YEAR, OF WHICH, AFTER ALLOWING FOR HIGHER FEED COSTS, 50 MILLION POUNDS WOULD GO TO MILK PRODUCERS. PRODUCER PRICE OF MILK WILL RISE FROM NOVEMBER BY AN ADDITIONAL 2.3 PENCE PER GALLON. NATIONAL FARMERS' UNION AND CONSERVATIVE OPPOSITION IN PARLIAMENT COMPLAINED THE MEASURE IS TOO LITTLE AND TOO LATE. CONSUMERS ARE COMPLAINING ABOUT THE EXTRA 1/2 P. PER PINT WHICH WILL BE ADDED TO THE RETAIL PRICE OF MILK. THUS, THIS IS AN ACTION THAT ANTAGONISES ALL AND SATISFIES NONE. END SUMMARY

1. UK MINISTER OF AGRICULTURE PEART REPORTED TO HOUSE OF COMMONS ON OCTOBER 15 THE EFFECTS OF THE 5.8 PERCENT UK GREEN POUND DEVALUATION AGREED AT EC COUNCIL OF AGRICULTURAL MINISTERS' MEETING IN LUXEMBOURG ON OCTOBER 14. PRINCIPAL REASON FOR THE DEVALUATION WAS TO INJECT MORE MONEY INTO THE BRITISH DAIRY INDUSTRY WHERE MILK PRODUCTION HAD BEEN FALLING BECAUSE OF RISING COSTS, PASTURE AND FODDER SHORTAGE DUE TO DROUGHT AND HEAVY SLAUGHTER OF COWS. THE DEVALUATION WILL MEAN AN ADDITIONAL 2.1 PENCE PER GALLON ON THE PRODUCER PRICE OF MILK AND WILL BRING IT THIS WINTER TO 40.02 PENCE PER GALLON WITH THE AVERAGE GUARANTEE PRICE OVER THE CURRENT FULL MILK YEAP RISING TO 37.04 PENCE, WHICH IS 7.3 PENCE ABOVE THE GUARANTEE PRICE ORIGINALLY FIXED IN THE 1975 ANNUAL REVIEW,

2. THE DEVALUATION WILL APPLY TO DAIRYING FROM OCTOBER 27. FROM NOVEMBER 2 THE RETAIL PRICE OF MILK WILL GO UP BY 1.5 PENCE PER PINT (1 P. DERIVES FROM EARLIER SETTLEMENT AND 1/2 P. IS DUE TO THE OCTOBER 14 DEVALUATION) TO 8.5 PENCE. MINISTER POINTED OUT THAT IN CONJUNCTION WITH THE JULY 22 UK GREEN POUND DEVALUATION, THE PRODUCER PRICE INCREASE AMOUNTS TO 4.5 PENCE PER GALLON ALTOGETHER. MINISTER SAID THE OCTOBER 14 DEVALUATION WILL MEAN 50 MILLION POUNDS ADDITIONAL MONEY FOR BRITISH MILK PRODUCERS. CONSEQUENT CHANGES WILL RAISE THE RETAIL PRICES OF BUTTER AND CHEESE BY ABOUT UNCLASSIFIED

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2 PENCE PER L. MINISTER TOLD COMMONS THAT THERE WILL BE SCOPE FOR FURTHER INCREASE IN THE MILK PRICE EARLY NEXT YEAR IN THE 1976 ANNUAL REVIEW.

3. IN OTHER SECTORS THE EFFECTS OF THE DEVALUATION WILL BE DELAYED. FOR CEREALS OTHER THAN WHEAT NOVEMBER 3 IS THE COMMENCING DATE. THIS WILL REDUCE THE MCA'S ON CORN FROM 4 POUNDS PER TON TO 2.40 POUNDS AND ON BARLEY FROM

5.50 POUNDS TO 2.50 POUNDS. IN THE BEEF SECTOR THE
CHANGE WILL TAKE EFFECT FROM JANUARY 5; THE DELAY IS TO
PREVENT BEEF GOING INTO INTERVENTION DURING THE AUTUMN
FLUSH OF MARKETINGS. ON WHEAT THE CHANGE IS DELAYED UNTIL
JULY 1, 1976 SO PRESERVING THE MCA SUBSIDY EFFECT WHICH
IS CURRENTLY AROUND 6 POUNDS PER TON AND WHICH COULD
INCREASE IF THE VALUE OF STERLING FALLS FURTHER. THIS
DELAY IN IMPLEMENTING THE DEVALUATION ON WHEAT IS SEEN
AS AN IMPORTANT STEP IN HELPING TO PREVENT UK CONSUMER
BREAD PRICES FROM RISING. IT WILL ALSO HELP SOFTEN THE
IMPACT ON FEED COSTS WHICH WILL RESULT FROM THE EFFECTS

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ON THE MCA'S ON CORN AND BARLEY.

4. MINISTER PEART SAID THAT THE TOTAL EFFECT OF THE DEVALUATION WILL BE TO GIVE BRITISH AGRICULTURE AN ADDITIONAL 90 MILLION POUNDS, INCLUDING THE 50 MILLION POUNDS ON MILK, IN A FULL YEAR. HE TOLD THE COMMONS THAT THE IMPACT ON THE RETAIL FOOD PRICE INDEX IS EXPECTED TO BE A LITTLE LESS THAN 1 PERCENT AND ONLY ABOUT 0.25 PERCENT ON THE OVERALL RETAIL PRICE INDEX. IT IS ESTIMATED THAT THE UK WILL LOSE IN A FULL YEAR ABOUT 73 MILLION POUNDS IN SUBSIDIES BECAUSE OF THE REDUCTIONS OF MCA'S.

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5. IN THE COMMONS, THE CONSERVATIVE SHADOW SPOKESMAN ON AGRICULTURE SAID THAT EVEN AT THE TIME OF THE JULY DEVALUATION HE HAD WARNED THAT MEASURES TAKEN THEN WOULD NOT STOP THE DECLINE IN BRITISH AGRICULTURE AND THAT THE LATEST DEVALUATION WAS AGAIN TOO LITTLE AND TOO LATE. THE DEPUTY LEADER OF THE CONSERVATIVES IN THE COMMONS AND A FORMER CONSERVATIVE SPOKESMAN ON AGRICULTURE, MR. WHITELAW, SAID THAT SHORT TERM PALLIATIVES WILL NOT WORK AND THAT LONG TERM CONFIDENCE MUST BE RESTORED. FROM THE LABOUR BENCHES, ANTI-MARKETEERS COMPLAINED THAT THEIR FEARS ABOUT FOOD PRICES UNDER THE CAP WERE BEING JUSTIFIED.

6. NFU COMMENT HAS BEEN RELATIVELY MUTED IN VIEW OF THE DEMAND MADE AT THE RECENT NFU RALLY IN LONDON THAT AN INCREASE OF ABOUT 8 PENCE PER GALLON WAS ESSENTIAL IF THE DECLINE IN THE DAIRY INDUSTRY WERE NOT TO WORSEN. NFU PRESIDENT, SIR HENRY PLUMB, SAID IT WAS A DISAPPOINTING PACKAGE WHICH EVEN WHEN ADDED TO PREVIOUS AWARDS WILL FALL SHORT OF THE NEEDS OF THE DAIRY INDUSTRY.

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